Major General Merchandise Outlets. There are two existing major general merchandise stores in Morgan Hill, the existing Target and Mervyn's. The Target is 80,441 square feet, and is slated for closure if the Proposed Project is built. The Mervyn's is 77,161 square feet. Mervyn's is more of a traditional department store, with a focus on apparel and housewares.

Beyond Morgan Hill, Gilroy has its own recently opened 123,709 square-foot Target in the Gilroy Crossing center. This store offers a wider range of products than the smaller Morgan Hill store, with additional frozen and dry foods grocery items and a pharmacy. Also in the Gilroy Crossing center is Kohl's, a store similar to Mervyn's in focus. Currently under construction in Gilroy is a 220,000 square-foot Wal-Mart Supercenter, slated to replace the existing Wal-Mart. Gilroy has a Costco warehouse club store of 148,663 square feet. Additional detail on the Morgan Hill and Gilroy stores can be found in Appendix J.

In San Jose, there are several Target stores, with the two closest to Morgan Hill at 3155 Silver Creek Road east of U.S. 101 off the Capitol Expressway, and the Oakridge store at 879 Blossom Hill Road. Wal-Mart has a store at 5502 Monterey Road approximately 12 miles from the Proposed Project Site. There is also a Target in Watsonville.

Major Supermarkets. Morgan Hill has four major full-service supermarkets. These include the 60,000 square-foot Safeway in Lawrence Oaks on East Dunne Avenue, the 53,985 square-foot Safeway in Tennant Station, the 32,440 square-foot Nob Hill Foods in the Vineyard Town Center, and the 23,200 square-foot Albertson's in Morgan Hill Plaza. The Albertson's and Safeway stores seem to cater to a broad mix of customers, while the Nob Hill Foods has a more upscale orientation. Safeway, as a corporate strategy, is also trying to develop a more upscale image as it seeks to reposition itself in the face of Wal-Mart competition on the lower end of the market. The Albertson's store is somewhat dated and small, and city staff indicates that in the past Albertson's has considered moving to a larger space, but they have stated to city staff that they are not currently planning to move or close.

These stores were all moderately busy at the time of BAE's site visit. Also of note is the 19,500 square-foot Morgan Hill Foods at 225 W Main. This store is oriented toward Latino shoppers, and currently is underutilizing their space, with a large area of the store not in use, and some kiosk space used by subtenants in the front of the store. Customer traffic was slow at the time of BAE's site visit. Detail on these stores can be found in Appendix K.

Gilroy has its own full-service supermarkets including Safeway and Nob Hill Foods, likely precluding much food shopping by its residents in Morgan Hill. Additionally, Gilroy has the Costco competing for pantry loading shoppers and the Wal-Mart Supercenter which will be opening later this year will offer significant competition to supermarkets in Gilroy and Morgan Hill.

Home Improvement Centers. Morgan Hill has its recently opened Home Depot, which took over a 104,000 square-foot space previously occupied by Kmart in the Lawrence Oaks center. Additionally, Johnson Lumber, while oriented toward contractors, also offers building materials and hardware items to the general public. Gilroy has its own Home Depot, along with a Lowe's.

In South San Jose, there are Home Depot stores on West Capitol Expressway near Highway 87, and at 920 Blossom Hill Road. Additionally, Lowe's is pursuing plans to build a store at the former IBM property on Cottle Road in the Edenvale area. If completed, this store will be San Jose's major home improvement store closest to Morgan Hill.

Movie Theaters. There is one operating movie theater complex in Morgan Hill, the Tennant Station Stadium Cinema. This multiplex complex currently has eight screens, and has plans for adding three additional screens. Morgan Hill also has the Granada Theatre (with two screens) in downtown, which is currently closed. BAE located six additional operating screens in the Cinema Trade Area, at the Platinum Theaters complex in Gilroy, for a total of 14 operating screens in the Cinema Trade Area. Moving beyond the Cinema Trade Area, there are two indoor movie theater complexes in San Jose within five miles of the northern end of the Cinema Trade Area: the Century Capital 16 at 3690 Hillcap Avenue, with 16 screens, and the Almaden Cinema at 2306 Almaden Road, with five screens. Overall, an inventory of screens in San Jose indicates over 75 screens scattered throughout the city. There are also five screens at the Premiere Cinemas in Hollister.

Restaurants. BAE did not attempt to identify every restaurant in Morgan Hill, but the city has a broad range of major chain restaurants as well as independent restaurants. Chain restaurants include major fast-food franchises and sit-down restaurants. As discussed above, the restaurant sector has seen a slight decline in sales in Morgan Hill in the last few years.

Impacts of Proposed Projects on Existing Retail Nodes and Outlets

Overview. This section assesses the impacts on sales at existing retail outlets in Morgan Hill. Impacts assessed include those on general merchandise stores, supermarkets, home improvement centers, restaurants, and movie theaters. Next, this section assesses how this proposed project might affect the other major retail nodes retailers in Morgan Hill, including the downtown area. Finally, the chapter considers cumulative impacts relating to other planned and proposed retail development in Morgan Hill and surrounding communities. Potential resulting physical impacts are discussed subsequently in the Urban Decay Analysis chapter.

Approach. The analysis that follows begins by assuming that this will be a fully functioning center, with outlets performing at industry norms for sales. However, this leads to the conclusion that the center will capture virtually all the sales in the categories of building materials stores and movie theaters. Table 14 below shows total potential impact as though all retail in the center were performing at industry norms, but for the retail types where assuming industry-average sales would lead to more capture than is realistic, the discussion in the text indicates the more likely short-term outcome of the new outlet and the existing outlets performing below par. The capture assuming the new outlet is performing at industry standards is particularly problematic for building materials stores and movie theaters.

Estimated Impacts of Proposed Project on Existing General Merchandise Outlets. The primary impact of the Proposed Project in this sector is the closure of the existing Target store. The analysis above indicates that there is demand to support an additional 52,000 square feet of general merchandise store space. The new Target represents an expansion of 43,359 square feet, and thus will capture most of the additional capturable demand. As a result, and since Target owns the existing store property, this space is very unlikely to be re-tenanted as another competing general merchandise space. In addition, the presence of the new Target and Wal-Mart Supercenter in Gilroy, as well as the presence of these two chains in south San Jose, limits the ability of any general merchandise store in Morgan Hill to survive by capturing from a larger trade area.

Estimated Impacts on Existing Supermarkets. Rather than relying on leakage analysis alone in analyzing supermarket sales trends, this study assesses the actual performance of the stores by estimating sales per square feet, comparing that to industry benchmarks, and looking at likely outcomes if additional retail space is added to the Trade Area. Total estimated sales are divided by square footage to provide estimates of average store performance based on sales per square foot under existing conditions and following the opening of a new supermarket at the Proposed Project. These measures of sales per square foot can then be used to evaluate store performance relative to industry benchmarks. The analysis in this section considers aggregate store performance; individual store performance may vary, with some stores doing considerably better than the community average, and some doing worse. Furthermore, industry benchmarks are not an indicator of the level of profitability of individual stores; some stores might be profitable at a lower sales level, while others may require greater market support. Retail operators have varying standards regarding satisfactory store performance and profit margins. Also to be taken into consideration is the ability of shoppers to switch store types in search of certain types of goods. For example, paper products can be purchased at a general merchandise stores such as Target as well as at supermarkets, or food sales can occur at a supermarket, a convenience store, or at a general merchandise store or drug store stocking the desired food items. One key assumption is that the Proposed Project's food store sales will primarily impact the major supermarkets, their most direct competitors. To the extent that sales would be captured from other types of stores, this estimate may therefore overstate the impacts on the supermarkets.

It should also be noted that the Trade Area growth in population will be gradual, while growth in retail space such as supermarkets or discount stores is "lumpy," with any new major store opening typically adding a large amount of square footage to the Trade Area. As a result, <u>any</u> new addition of retail space will have a negative short-term impact on sales at existing stores, with the impact decreasing over time as population growth continues (assuming no more new stores are opened). The analysis has been performed for two future points in time: 2007, the estimated opening date for the Proposed Project; and 2010, assumed to represent buildout of the proposed project.

Based on taxable sales data, Economic Census data, and on sales data from proprietary sources, BAE estimates 2004 supermarket sales in the four major outlets described above at approximately \$75 million (see Table 12). Given an estimated Trade Area population of 48,804 in 2004, supermarket sales per capita are estimated at \$1,537.

Store sales are estimated at an average of \$442 annually per square foot for these existing supermarkets. This overall average is somewhat above a median industry benchmark derived from Urban Land Institute's *Dollars & Cents of Shopping Centers: 2004.* ULI's extensive national surveys show median annual supermarket sales per square foot of \$390 for all supermarkets in U.S. community shopping centers, with national chains performing slightly better with a median of $398, and local chains below the overall median at $358 per square foot.

Table 12: Estimated Sales at Existing Supermarkets in Target Trade Area

	2005
Trade Area Population (a)	48,804
Estimated Supermarket Sales (b) (c)	$75,000,000
Per Capita Supermarket Sales	$1,537
Existing Supermarket Square Feet	169,625
Average Annual Sales per Square Foot	$442
ULI Median, All Supermarkets (d)	$390

(a) Trade area is constructed from 2000 Census Block Groups, as listed in Appendix A. Population estimates for 2000 and 2005 derived from ABAG projections as shown in Table 2. 2004 population is estimated by pro-rating population growth from 2000 through 2005 using the annual compound average growth rate.
(b) Based on estimates by BAE based on confidential sources, self-reporting, published taxable sales data, Census of Retail Trade, site visits and industry benchmarks. Rounded to nearest hundred thousand.
(c) All estimates throughout table in 2004 dollars.
(d) Urban Land Institute's Dollars & Cents of Shopping Centers: 2004. Median for all supermarkets in community shopping centers nationwide. ULI's extensive national surveys show median annual supermarket sales per square foot of $390 for all supermarkets in U.S. community shopping centers, with national chains performing slightly better with a median of $398, and local chains below the overall median at $358 per square foot.

Sources: U.S. Census Bureau; U.S. Bureau of Labor Statistics; CA State Department of Finance; CA State Board of Equalization; ABAG; Urban Land Institute; BizStats.com; Bay Area Economics, 2005.

Table 13 provides specific analysis of food store impacts as focused on supermarkets. In addition to the current sales, the leakage analysis (see Table 9 above) estimates that there are an additional $5.2 million potentially capturable from leakage, indicating a total current sales potential of $1,643 annually in supermarket sales. This per capita sales number is used to assess potential future sales in the Target Trade Area on the assumption that the leakage as noted can be captured by a new store and the existing supermarkets. As currently proposed, the Proposed Project includes an alternative land use consisting of a 50,000 square-foot supermarket. If the store opens in 2007, average annual sales per square foot at the Target Trade Area's existing supermarkets that year would decline by 14 percent from 2004 levels of $442 per square foot, to an estimated $379. With projected population growth, sales at the existing outlets would recover to $400 per square foot in 2010, above the ULI benchmark of $390. The available store-by-store sales data were derived from confidential and in some cases proprietary sources, thus limiting the discussion of specific stores, but the major chain supermarkets are all performing at a level of sales where this loss of sales can likely be absorbed. The remaining smaller supermarket, Morgan Hill Foods, caters primarily to a Latino niche market and is less likely to be directly affected by a supermarket located at the Proposed Project. More precise impacts cannot be assessed without knowing the actual tenant or market niche of a grocery store at the proposed project. An upscale market such as Trader Joe's or Whole Foods, which would be the best fit for a grocery store in a lifestyle center, would compete most directly with Nob Hill Foods, but a midmarket conventional chain store might have more of an impact on the Safeway and Albertson's stores.

Table 13: Impacts of Proposed Project on Sales at Existing Supermarkets in Trade Area

	2004	2007	2010
Trade Area Population (a)	48,804	50,987	53,486
Current Sales per Capita (b)	$1,537		
Current Supermarket Sales	$75,000,000		
Capture from Leakage (c)	$5,200,000		
Supermarket Sales Potential (a) (b)	$80,200,000	$83,800,000	$87,900,000
Potential Sales per Capita	$1,643	$1,643	$1,643
Existing Supermarket Square Feet	169,625	169,625	169,625
Additional Grocery Store in Project (d)		50,000	50,000
Sales per Square Foot in New Supermarket (e)		$390	$400
Estimated Supermarket Sales in New Store (b)		$19,500,000	$20,000,000
Sales in Existing Outlets (b)	$75,000,000	$64,300,000	$67,900,000
Average Annual Sales per Square Foot at Existing Stores	**$442**	**$379**	**$400**
Percent Change from 2005		**-14%**	**-9%**
Capture of Morgan Hill Supermarket Sales by Gilroy Wal-Mart Supercenter		$5,625,000	$5,625,000
Sales in Existing Outlets		$58,675,000	$62,275,000
Average Annual Sales per Square Foot at Existing Stores		**$346**	**$367**
Percent Change from 2005		**-22%**	**-17%**

(a) From Table 12.
(b) All estimates throughout table in 2004 dollars. All total sales estimates rounded to nearest hundred thousand.
(c) From Table 9.
(d) From site plan.
(e) Sales per square foot based on average sales per square foot per ULI, or estimated average sales per square foot in combined new store and existing stores, whichever is higher.
(f) Assumes 25 percent of Wal-Mart grocery sales are captured from Morgan Hill. Assumes 50,000 square feet of space attributable to grocery items. Assumes sales of $450 per square foot at Supercenter.

Sources: U.S. Census Bureau; U.S. Bureau of Labor Statistics; CA State Department of Finance; CA State Board of Equalization; ABAG; Urban Land Institute; BizStats.com; Bay Area Economics, 2005.

More generally, Table 14 below shows the impacts on the overall food store sector. At buildout in 2010, a 50,000 square-foot grocery store in the Proposed Project would capture only eight percent of existing sales in the overall food store sector (nine percent when all impacts are assumed to fall on supermarkets, as discussed above).

Table 14: Estimated Sales at Buildout and Capture from Existing Retailers, 2010

	Current Sales (a)	Additional Capture from Leakage Sales	Additional Capture Population Growth	Total Potential Sales (b)
General Merchandise	$51,294,000	$6,975,000	$6,731,000	$65,000,000
Building Materials	$28,266,000	$11,510,000	$3,745,000	$43,521,000
Food Store	$82,673,000	$5,772,000	$8,010,000	$96,455,000
Fast Food	$20,792,000	$950,000	$950,000	$22,692,000
Sitdown Restaurant	$21,310,000	$13,756,000	$3,369,000	$38,435,000
Unclassified	$42,641,000	$49,101,000	$11,326,000	$103,068,000
Service Station	$59,771,000	$0	$0	$59,771,000
Total	**$306,746,000**	**$88,064,000**	**$34,131,000**	**$428,941,000**

Type of Store	Square Footage	Sales per SF	Estimated Sales in Proposed Project	Potential Center Sales from Current (c)	Proposed Center % Potential Capture of Current (d)
General Merchandise	123,800	$250	$30,950,000	$17,244,000	34%
Building Materials	140,000	$295	$41,300,000	$26,045,000	92%
Food Store	50,000	$400	$20,000,000	$6,218,000	8%
Fast Food	23,000	$475	$10,925,000	$9,025,000	43%
Sitdown Restaurant	7,500	$525	$3,937,500		0%
Unclassified	233,350	$313	$72,979,000	$12,552,000	29%
Service Station	n/a	n/a	$419,000	$419,000	1%
Total	**577,650**		**$180,510,500**	**$71,503,000**	**23%**

(a) From 2004. Rounded to nearest thousand. May not sum to total due to independent rounding.
(b) Total potential sales in Morgan Hill equals current sales plus additional capture from leakage plus additional capture from population growth.
(c) Potential capture from current sales equals estimated sales in project less sales captured from leakage and increased sales from population growth. Assumes that the Proposed Project performs at typical industry sales levels.
(d) This potential capture is based on the assumption that the Proposed Project will perform at industry norms for each retail store type. An alternative outcome might be that existing outlets and the outlets in the new center would both perform below par. For example, in the building materials store sector, the capture indicates oversaturation of the market, and both the new home improvement store and the existing competitors (primarily Home Depot) would likely have sales well below their typical corporate averages.

Sources: DiNapoli Browman Guglielmo Development; City of Morgan Hill; Urban Land Institute; U.S. Dept. of Labor, Bureau of Labor Statistics; CA State Board of Equalization; CA Dept. of Finance; HdL Corporation; Bay Area Economics.

In summary, it is highly unlikely that any existing supermarkets would face potential closure due to loss of business resulting from the opening of a new supermarket at the proposed project.

Estimated Impacts in Building Materials Sector. The recently opened Home Depot has added significantly to sales in the building materials store category in Morgan Hill, based on sales data provided by the city to BAE. It has absorbed much of any previous sales leakage for this category in Morgan Hill, through recapture of sales in Gilroy, which has a Home Depot, a Lowe's, and an Orchard Supply Hardware. The remaining leakage is primarily in subcategories other than home improvement centers, but a large home improvement center could capture some of this leakage through local consumers shifting their shopping to the outlets available in Morgan Hill. Overall, there is currently support for an additional 45,000 square feet in this category, growing to 56,000 square feet by 2010 (see Table 11 above). This is still significantly below the 140,000 square-foot size of a possible home improvement center in the Proposed Project, so it is likely that sales will be cannibalized from existing outlets, in particular the recently opened Home Depot. If a home improvement center at the Proposed Project were to perform at the average nationwide sales level for a Lowe's store[17] as shown in Table 14, the store would capture over 90 percent of the sales of existing outlets in the building materials sector, with most of the capture likely to come from the most similar competitor, Home Depot. Rather than capturing most of that store's sales, though, both stores would probably end up performing well below company per square foot averages. Whether two such stores can compete in Morgan Hill and meet long-term goals for market share and profitability depends largely on the cost structure and goals of the Lowe's and Home Depot companies, which are now building stores to compete for market share, with consolidation and closure of unprofitable stores perhaps to follow later.[18] However, there is high likelihood that the existing Home Depot would ultimately close due to competitive disadvantages relative to the newer and larger home improvement store proposed for the project.

Estimated Impacts for Restaurants. Morgan Hill shows support for an estimated additional 38,000 square feet of restaurant space by 2010 (see Table 11 above). This is of the same order of magnitude as the estimated 30,500 square feet of restaurant space in the Proposed Project, indicating that there is market support for this use. However much of this space demand is for sit-down restaurants, and the configuration and size of the restaurant pads in the site plan is primarily for fast food outlets. As a result, there may be impacts on the existing fast food outlets in Morgan Hill. This impact may be focused on outlets such as McDonald's or Panda Express in Cochrane Plaza, where the existing Target is slated for closure if the Proposed Project is built, or on the Lawrence Oaks center, where sales at Home Depot are likely to decrease significantly. However, the sales impact of new fast-food restaurants is likely to be spread over a number existing fast-food outlets, with the percentage of lost business at any given restaurant being relatively small. As such, it is not anticipated that any existing restaurants will face closure as a result of lost business due to the opening of new restaurants at the proposed project.

Estimated Impacts for Movie Theaters. As discussed above, there is one operating movie theater complex at Tennant Station in Morgan Hill with eight screens and plans for three

[17] According to the information provided to BAE, no particular retailer has committed to the spaced planned for a home improvement center; Lowe's is being used here for illustrative purposes only; there are few other Home Depot competitors building large home improvement centers.

[18] While few Home Depot or Lowe's stores have closed in recent years, Home Depot recently announced the closing of 15 of their EXPO Design centers nationwide, and reconfiguration of five more as conventional Home Depots.

additional screens. Morgan Hill also has the Granada Theatre downtown, which is configured as two screens but is currently closed. BAE located six additional operating screens in the Cinema Trade Area in Gilroy.

National data for movie theaters indicates that as of 2002, there were 35,170 screens in the U.S.,[19] or roughly one per 8,200 persons. Based on this benchmark, the estimated 2005 Cinema Trade Area population of 105,288 can support 13 screens currently, and with growth through 2010 could support one additional screen. Since there are currently 14 screens, this indicates that the market is currently in equilibrium. The demand from the Cinema Trade Area is insufficient to support a doubling in the number of screens. Lessening this impact somewhat would be capture of some movie-goers from South San Jose who might be attracted by a new theater complex in a complex with several restaurants and other shopping, but these consumers already have available to them multiple nearby movie complexes in San Jose itself.

The theater complex most likely to bear the brunt of impacts is the existing movie theater complex at Tennant Station; its proximity will make it the most direct competitor. Gilroy movie-goers might come to a new complex at the Proposed Project, but the convenience of the local complex in Gilroy will still likely draw most of its local movie audience. The Granada Theatre, if it is re-opened, will likely seek a market niche such as foreign and art films where it will not compete directly with either the existing theater complex or the proposed one.

According to the operators of the Tennant Station multiplex and other sources, first-run movies are allocated randomly to the up-to-date complexes in an area, and the existing Tennant Station complex with its stadium seating and a megaplex at the Proposed Project would both qualify. The larger complexes often fill their rooms by offering multiple screenings of major new releases. There are, however, limitations on the number of available movies capable of selling well, as indicated by the plateau in the number of screens nationwide in recent years as older screens were phased out in the face of competition from large new multiplexes and megaplexes. Since the existing multiplex will continue to offer first-run movies in competition with the new complex, neither complex will be able to dominate the local market. However, there are likely to be too many screens and seats for the available offerings, and the excess capacity may make either or both complexes unprofitable. Which complex would close would depend on a number of factors; the newer complex may offer a higher-amenity viewing experience to its viewers, will have more screens offering more options, and has a superior region-serving location, but may also face higher costs of operations as a new complex in a new building. Ultimately, the chain with deeper pockets and the willingness to hold out in the hopes of gaining more market share later may be the one that outlasts the competition. However, there is a strong potential that the existing cinemas at Tennant Station would ultimately close due to competitive disadvantages relative to the proposed cinemas at the project.

Impacts on Other Retail Sectors and Overall Impact in Morgan Hill. Table 14 above presents an overview of potential impacts in Morgan Hill if the Proposed Project is built and its outlets perform at industry standards. Assuming these standards and excluding the movie theater

[19] *The Motion Picture & Theatre Industry Overview*, Cushman & Wakefield Valuation Services Retail Industry Group, December, 2004.

complex, this project would generate an estimated $181 million in retail sales at buildout. Current sales in Morgan Hill in these categories total approximately $307 million; $88 million in additional sales could be captured from leakage, and population growth to 2010 would generate $34 million in additional sales. Summing up, total potential sales in Morgan Hill are slightly below $429 million annually in 2010. At stabilized levels assuming industry-standard performance, the Proposed Project would capture an estimated $72 million in sales from existing outlets in Morgan Hill, assuming it accounts for all supportable square footage capturing growth in retail sales and all supportable square footage from leakage, except in the sit-down restaurant category, where the combination of leakage and additional potential sales is greater than the estimated sales generated in the Proposed Project. The impacts in the known potential store categories of general merchandise, building materials, food stores, restaurants, and movie theaters are discussed above. Among the remaining stores in other categories likely to provide tenants for the Proposed Project,[20] sales at buildout are estimated at approximately $73 million. After factoring out capture of leakage and sales from growth, the stores would take an estimated $13 million in sales from existing outlets, representing a loss of 29 percent of existing store sales. Since the specific store types which will fill out the project are unknown, the impacts on particular retail nodes cannot be ascertained, but this is a large share of existing retail in Morgan Hill. As with building materials stores and movie theaters, another possible outcome in such an oversaturated market would be lower sales performance in the Proposed Project in combination with a smaller loss from existing outlets. Given the absence of information on the full range of proposed store types at the project, and considering also the uncertainty of market dynamics in an oversaturated market, it is not possible to identify any additional retail stores which may face closure due to the project, and any effort to do so would be speculative.

The impacts on these sectors and overall will be lessened to some degree if the center is successfully positioned as a lifestyle center and serves a broader market area. However, market areas for the two largest users of the proposed project (general merchandise and home improvement) face significant competition outside Morgan Hill from existing and planned general merchandise stores and home improvement warehouses in Gilroy and San Jose. Movie theaters might draw from a larger area due to their convenient highway location and large number of offering available due to the number of screens. However, even in the case of movie theaters, the Proposed Project adds more screens than are supportable, doubling the number of screens in the Cinema Trade Area.

Impacts by Retail Node in Morgan Hill. The most obvious local impact will be at Cochrane Plaza, where the Target anchor will be relocating to the project and vacating the center. As indicated by the decline in general merchandise store sales in Morgan Hill since 2002, this center and its two anchors have already experienced impacts from the opening of Gilroy Crossing with its Target and Kohl's. The loss of Target is likely to lead to reduced traffic at the other stores in the center, many of which are complementary to the Target, offering similar apparel and household items. Some of these tenants, especially Big 5 Sporting Goods, Ross Dress for Less, or Payless Shoe Source may choose to move to the new center to remain close to the Target and the customer traffic it generates, or they might simply close in the face of new competition if

[20] These store categories include apparel, specialty retail, household and home furnishings, and household appliances.

similar tenants locate in the Proposed Project. The restaurants such as McDonald's in Cochrane Plaza will also face new nearby competition from restaurants at the Proposed Project, which is likely to capture some of their share of pass-by highway traffic looking for convenient dining or takeout even as it captures new pass-by traffic and regional business generated by a movie theater complex. Additionally, the other major anchor in this center, Mervyn's, is part of a chain previously owned by Target, but spun off in to an investment consortium of Sun Capital Partners, Cerberus Capital, and Lubert-Adler/Klaff. One of the key assets considered was Mervyn's real estate holdings rather than its operations, which have been negatively affected by competition from both higher-end and lower-end stores. While no major consolidations or closures have taken place to date, the potential exists that the chain will be dismantled for the value of its real estate holdings. In summary, the proposed project would directly result in the closure of the existing Target due to its relocation to the project, and could indirectly contribute to the ultimate closures of the existing Mervyns as well as several ancillary retailers in the household goods and apparel sectors. [21]

The Lawrence Oaks Center could be significantly impacted if the Proposed Project includes a large home improvement store as planned. As discussed above, the local trade area is not capable of supporting two large home improvement stores performing at industry average sales levels. Neither Home Depot nor its primary competitor, Lowe's, are currently consolidating their competing operations, but are still in expansion mode seeking greater market share, at the expense of their own stores nearby and each other's stores. However, this center's two anchors, Safeway and Home Depot, are not particularly complementary and thus the loss of either is not likely to significantly affect the other. In fact, the Safeway and an adjacent Longs Drugs continued to operate successfully after the Kmart previously occupying the Home Depot space closed. Furthermore, since this center is not as focused on a particular retail store type as Cochrane Plaza is on apparel and household items, re-tenanting may not prove as difficult, with one possibility being an office supply store, a category for which Morgan Hill shows significant additional capturable sales. As discussed, above, the Safeway store in this center is not likely to close even if a new grocery store opens in the Proposed Project. In summary, although the project is highly likely to result in the ultimate closure of the existing Home Depot, the remaining stores in the center should be minimally affected since they do not depend on the Home Depot to attract pass-by customers. The possible exceptions to this are restaurants in the Center (e.g., Burger King), and nearby (e.g., Lyons) which would likely experience some lost revenue, but not enough to result in closure.

Tennant Station could ultimately see the loss of the Cinelux movie theater complex if the new multiplex opens as proposed, since the Cinema Trade Area's population base does not support demand additional screens. However, this theater complex was recently upgraded from six to eight screens, with additional improvements such as stadium seating and an improved lobby, so

[21] Target has indicated via correspondence with the developers of the Proposed Project that the current store "is no longer adequate for our merchandising needs," and that the existing store cannot be "economically expanded," nor is adequate parking available. As a result, Target states that if they cannot relocate in Morgan Hill, that "it is very likely that Target will choose to close this existing store and no longer have a presence in Morgan Hill." (Letter of June 20, 2005, from Brian D. Treber, Regional Real Estate Manager for the Target Corporation, to Darryl Browman of the Browman Development Company).

the operators have shown a strong commitment to the space. They have also reported plans to expand by three screens. The entire center is still in the midst of a makeover that began with the construction of the new Safeway and other changes, and just recently found a new operator for the bowling alley[22] and some other spaces as the property owners try to bring in tenants willing to pay higher rents, especially national chains. The major anchors, Safeway and Rosso's Furniture, however, report strong sales, and the loss of a movie theater would not likely impact their sales significantly; nor are these two anchors at risk from the Proposed Project. There are limited restaurants in the center, and any downturn in sales from loss of the theater complex may be countered by the re-opening of the bowling alley, and in any case, the losses would likely be minimal. In summary, while there is a strong potential that the project would result in the ultimate closure of the existing cinemas, the remaining businesses would be minimally affected because they do not depend on the cinemas for pass-by business.

The Vineyard Town Center is co-anchored by Nob Hill Foods and T.J. Maxx. While an upscale market or specialty food store such as Trader Joe's or Whole Foods at the Proposed Project might affect sales at Nob Hill Foods, this supermarket is achieving current sales levels that make it unlikely to close, especially given the ability of the Target Trade Area to support additional grocery store space. A specialty food store would also be more likely to capture sales from outside Morgan Hill, particularly due to the lack of a similar outlet in Gilroy. Any restaurants in the center might see a downturn in sales, but not enough to cause closure. Other stores at the center may be somewhat affected depending on the ultimate tenant mix proposed for the project. In summary, it is not anticipated that any of the businesses at the center would lose significant sales or face closure as a result of the proposed project.

Morgan Hill Plaza is home to Albertson's, one of the major supermarkets potentially impacted by a possible grocery store in the Proposed Project. While some of those involved in the local real estate market who were interviewed for this study indicate that Albertson's could relocate to the Proposed Project, communications with City officials indicated that the company has no current plans to move or close and is not actively seeking to relocate. Sales levels at this store are sufficient that it is likely to survive any additional competition at the Proposed Project. Morgan Hill Plaza is an older center, and the anchor supermarket space is smaller than newer supermarket spaces such as the two Safeways in Morgan Hill. Additionally, a drug store space has been re-tenanted as a Dollar Tree; overall the center has smaller local businesses as the remaining tenants, and reportedly has a 10 percent vacancy. However, the major anchor spaces are both occupied, and the center appears to be well-maintained. As a more downscale local-serving center, it is not likely to lose much market share to the Proposed Project. In summary, it is unlikely that the project would result in any store closures at this plaza.

Nob Hill Center (named after the local landmark, as is Nob Hill Foods, which is <u>not</u> in this center) is home to Morgan Hill Foods, which is a small supermarket catering to the local Latino population. While this store appeared to be less busy than other supermarkets, its position serving an ethnic niche market makes it less vulnerable to impacts. The other tenants in the center include a church and small local-serving businesses, none of them likely to be impacted by

---

[22] According to the *Morgan Hill Times*, a new operator has been found and the bowling alley should reopen later this year. See "Bowling Alley to Reopen," *Morgan Hill Times*, June 21, 2005

the Proposed Project. While this older center is low-end in terms of its tenants, it appears to be well-maintained, having undergone a major renovation in 2004. In summary, it is unlikely that the proposed project would result in any store closures at this center

With respect to downtown, the Proposed Project presents potential restaurant competition, but the restaurants downtown tend to be smaller locally-based restaurants that are already coexisting with the kinds of large chain restaurants likely to locate in the Proposed Project. According to the City, any plans to reopen the Granada Theatre for movies will position it as an art house, repertory theater, or venue for foreign and other non-mainstream films, so it will be in a different market niche and unlikely to be affected by a movie theater complex at the Proposed Project. Given the limited tenant information available at this time for the Proposed Project, any additional discussion of impacts on downtown businesses would be speculative. As with most downtowns, Downtown Morgan Hill has already changed its market niche as other shopping centers have developed in Morgan Hill, offering an option for a different kind of shopping/dining/entertainment experience, along with lower rents allowing small local start-up businesses.

Cumulative Impacts. Per CEQA requirements, the impacts of the Proposed Project must also be assessed in the context of other likely retail developments in the market area or affecting the market area.

In Morgan Hill, there are several sites designated for future retail development, but the only one besides the Proposed Project in the development process at this time is a site to the west of 101 on Cochrane Road at Madrone Parkway, across from Cochrane Plaza. This development involves the rezoning of an eight-acre parcel for a neighborhood commercial center totaling 72,000 square feet. Current plans call for a number of smaller pads and one 50,000 square-foot store. No tenants are committed to this project at this time. As a neighborhood center, the uses are not likely to compete directly with the planned region-serving uses at the Proposed Project. A proposed expansion of consequence in Morgan Hill is Cinelux's plans to add three more screens to their existing eight at Tennant Station. This would lead to even more oversaturation of movie screens in Morgan Hill and the Cinema Trade Area, but how this would impact the viability of the existing multiplex and Tennant Station are unclear. It could make it more competitive and lead to lower movie attendance in the Proposed Project, but also might further erode the profitability of Cinelux's multiplex as it operates more screens but fails to gain enough additional patrons due to the competition from the Proposed Project.

In Gilroy, the most significant additional development is the opening of the 220,000 square-foot Wal-Mart Supercenter, which will expand the existing Gilroy Wal-Mart to include grocery offerings equivalent to a large supermarket. This capture would be spread among all the supermarkets affected, with stores in Gilroy bearing the brunt of the impact due to their proximity. Table 13 above includes an estimate of potential cumulative impacts on Morgan Hill's supermarkets from the Wal-Mart Supercenter and the Proposed Project. As indicated, additional capture of Morgan Hill supermarket sales is estimated at $5.625 million, and average sales per square foot would decline to $346 in 2007, with a recovery to $367. This average figure is within industry norms, and the additional loss should not lead to closures, as each of the major supermarkets is performing at levels capable of sustaining this level of additional sales loss. With respect to general merchandise, those Morgan Hill shoppers who seek the Wal-Mart shopping experience rather than Target are likely shopping there already, so the number of additional shoppers attracted by the relatively small expansion of space for those items is probably negligible.

The vacancy created by Wal-Mart's closure of their existing store is another significant retail event related to the opening of the Supercenter. As an older existing space designed for a certain user, it is unlikely to attract the kinds of prime tenants seeking new space in a center such as the Proposed Project.

BAE research found one other proposed project in Gilroy with a potential region-serving focus, Gilroy Commons, a 117,000 square foot center on slightly over 10 acres adjacent to Gilroy Crossing. According to Gilroy planning staff, one major store in this space will be occupied by an electronics store such as Circuit City, and another potential tenant was a store such as Marshall's or TJ Maxx. The analysis in this report uses the Target Trade Area for these store types, and thus already excludes Gilroy, and assumes that the Proposed Project will not capture from the Gilroy area. If the Proposed Project has competitors to the stores in this center, it is assumed already only to capture leakage out of Morgan Hill, and the presence of this new center will not present any new cumulative impacts in combination with the Proposed Project. This finding is reinforced by the fact that the center is configured as an in-line center rather than with the more pedestrian-oriented lifestyle center design of the Proposed Project.

In San Jose, the development currently in process that may result in cumulative impacts is the development at the IBM site of a Lowe's home improvement center in a 222,000 square foot center with other tenants not currently known. This development would make it much less likely that San Jose shoppers would frequent a similar store in Morgan Hill, since most of them would drive by this center to get to Morgan Hill. This development is currently working its way through the EIR process, albeit with some difficulty and controversy due to the potential loss of historic structures at the site. Moreover, the San Jose Lowe's project lies outside the Target Trade Area (used also for the potential home improvement center), and as such would result in little if any additional loss of business (at the Morgan Hill Home Depot), and therefore would not contribute to a cumulative project impact.

Urban Decay Analysis

Introduction

Following is analysis and findings regarding potential urban/suburban decay and physical deterioration resulting from the impacts of the Proposed Project. As stated in the Introduction to this report, recent California court decisions have made clear that for large retail developments CEQA requires, as part of the EIR process, that an economic impact analysis to assess the possibility of "urban decay" and deterioration and indirect physical impacts on the environment. To fully satisfy the requirements of an EIR, the economic analysis must start with the economic impacts, but also follow the causal chain to assess the likelihood of new retail space causing long-term vacancies in existing retail space and ultimately leading to urban decay and physical deterioration of existing retail centers and nodes. In the words of *Bakersfield Citizens for Local Control v. City of Bakersfield, Panama 99 Properties LLC, and Castle & Cooke Commercial-CA, Inc.,* the analysis is required to assess whether a new retail development "could cause a ripple of store closures and consequent long-term vacancies that would eventually result in general deterioration and decay within and outside the market area" of the proposed development. Further, "[t]hese effects include, but are not limited to, physical decay and deterioration resulting from store closures in the same market area or in established areas of the community (i.e., the 'traditional downtown area') due to competitive pressures, followed by an inability to easily re-lease the vacated premises." One concern is that large retailers that dominate sales in their merchandise lines "will displace older, smaller retail stores and shopping centers, leaving long-term vacancies that deteriorate and encourage graffiti and other unsightly conditions." The EIR "must analyze the cumulative impacts resulting from construction and operation of the proposed shopping center in conjunction with all other past, present or reasonably foreseeable retail projects that are or will be located within the proposed project's market area" and determine the likelihood that a project "individually and/or cumulatively, indirectly could trigger the downward spiral of retail closures and consequent long-term vacancies that ultimately result in decay."

Direct Economic Impacts

Based on the retail analysis in the previous chapter, the Proposed Project may have significant impacts at three retail centers in Morgan Hill.[23] Cochrane Plaza would see closure of the Target when it relocates, and possibly Mervyn's and other smaller retailers. Lawrence Oaks could face closure of the Home Depot store at some time in the future. Tennant Station could eventually lose its multiplex. Additional vacancies scattered throughout Morgan Hill could result from defections of tenants to the new center as they seek out the newest space available, and from closure of existing businesses competing with the new center. However, in the absence of a defined tenant mix for most of the project, any attempt to identify such potential vacancies would be speculative. The project impacts might be lessened to some degree to the extent the center develops with a lifestyle retail center concept and draws in higher-end tenants, since these tenants could draw from a larger trade area and would represent new retail types not as directly

---

[23] The analysis above considered full buildout of the Proposed Project with sales at the new center at industry standards as shown in Table 16. However, where there is insufficient demand to support both the new retail use and existing stores, the new center may not reach these levels of sales, but instead the demand might lead to sub-par performance at both the new and existing retail, at least in the short-term.

competitive with existing stores, and thus would not have to capture as much market share directly from those stores in order to succeed. However, there are currently no such tenants committed to the center, and as a result this analysis assumes a more generic tenant mix; these tenants are assumed primarily to serve the Morgan Hill and the Target Trade Area since competing retail outlets in Gilroy and San Jose would preclude capture of significant market share from those areas.

Retail Real Estate Market Conditions in Morgan Hill

Given the potential for retail vacancies as stated above, the next step is to assess the strength of the overall retail real estate market. In a strong market, long-term vacancies are less likely and the causal chain of events leading to urban decay is less likely. At the time of BAE's site visit, there were no large vacant retail properties, indicating that the market is currently in equilibrium. It is noted that the former Kmart store was successfully reused as a Home Depot. The Nob Hill Center with Morgan Hill Foods is somewhat antiquated, and the food store is underutilizing its space and other non-retail tenants including a church in some of its space, but the center has recently been renovated and is in physically good condition. None of the major retail nodes discussed above is experiencing the vacancy of a large anchor space or significant numbers of smaller spaces.

BAE contacted retail real estate brokers and other representatives of retail properties in Morgan Hill to better understand market conditions. These brokers (listed in Appendix L) indicated a great deal of concern over the loss of Target for Cochrane Plaza, and indicated other tenants in that center were struggling. The owner of Tennant Station believes an additional movie complex would eventually drive the multiplex in his center out of business. He also pointed out how the former Rite-Aid store in Morgan Hill Plaza was re-tenanted by a Dollar Tree, and indicated that this was the kind of tenant likely to backfill older vacant spaces in Morgan Hill. This indicates a potential lack of depth in prime tenants for re-tenanting existing centers should vacancies increase substantially. Overall, the picture was of a market with stable conditions currently, but facing significant impacts if the Proposed Project moves forward. Given the certainty that Target would move if the Proposed Project is built, the greatest concern was with the impacts on Cochrane Plaza.

Conclusions Regarding Urban Decay and Physical Deterioration

Overview. The following discussion considers the potential for urban decay and physical deterioration for each of the competing retail nodes discussed above, taking into account the impacts of the Proposed Project and possible cumulative impacts due to other retail development in Morgan Hill, South San Jose, and Gilroy. As indicated above, no large anchor retail spaces are currently vacant in Morgan Hill, and BAE's tour of the existing centers found no current evidence of urban decay or physical deterioration resulting from vacancy, deferred maintenance, or disinvestment. None of the existing centers could be seen as being at risk of urban decay if the Proposed Project is not built.

Cochrane Plaza. The proposed center will lead to the loss of one of the two large anchors at Cochrane Plaza. This center and its other large anchor, Mervyn's, face strong new competition from Gilroy Crossing and its new Target and Kohl's. Mervyn's was recently spun off by the Target Corporation, with some indications that the underlying value to potential purchasers is in its real estate holdings (e.g., Mervyn's owns its space in Cochrane Plaza, as does Target) rather than in its operations. However, the buyers include firms specializing in reviving leading retail chains rather than firms with a real estate focus. At this time, the new ownership has continued with existing management and not announced any major changes such as store closures. A representative of Cochrane Plaza indicated that other stores in the center are faring poorly even with the existing Target in place. Currently, the center is trying to find a replacement tenant for a 7,500 square-foot Miller's Outpost space, and potential tenants are reportedly requesting a cancellation clause if the Target closes. Other tenants may close entirely or relocate to the Proposed Project seeking the continued synergy of locating near a Target. Cochrane Plaza is further constrained by land use regulations that do not allow re-tenanting of the Target space as a grocery store without voter approval. Re-leasing of the Target space might also require a subdivision or redevelopment of the existing store, as the market analysis indicates no support for a space of that size for any category of retail outlet. One possible reuse for at least part of the space is as an office supply store; the analysis indicates support for a sizable store in this category in Morgan Hill. However, this use does not complement the remaining tenant base nearly as well as Target, would not fill the entire vacant Target space, and might be more suitable for another location in Morgan Hill; if the Proposed Project seeks additional tenants outside the lifestyle retail niche, an office supply store could even be located there. Another factor to consider is the multiple ownership of this center; any attempt to redevelop the entire center must be approved by the separate owners of the vacated Target space (currently owned by Target), Mervyn's, and the owner of the remainder of the center. Given the lack of viable large-scale tenants for the Target space, the loss of synergy with the remaining tenants if the Target closes, and an uncertain future for Mervyn's, the center is likely to undergo secondary closures of smaller businesses. Therefore, Cochrane Plaza faces the likelihood of entering a cycle leading to urban decay and physical deterioration resulting from long-term vacancies, secondary business closures, and the inability to re-tenant existing stores.

The actual potential for physical deterioration to occur will be dependent on the commitment from the current property owners to maintain the property, which will be made more challenging due to the multiple ownerships. Although it may be reasonable to assume that the owners would maintain the plaza in a condition suitable for re-tenanting, there is no evidence or indication that such upkeep would continue indefinitely in the face of long-term vacancies in oversaturated market conditions, especially if the prospect of significant re-tenanting of the existing spaces is remote. Therefore, it is concluded that there is a high likelihood that the Cochrane Plaza would be subject to a causal chain ultimately resulting in urban decay. This potential for urban decay may be reduced or avoided through mitigation measures discussed in the following section.

Ultimately, if the market proves unable to provide sufficient retail tenants for this space, the property owners may have to redevelop the center in some other use. While other aspects of the regional commercial market are weak (e.g., industrial, office, and R&D), the site has strong locational advantages with highway access and visibility on a highly traveled highway corridor.

Lawrence Oaks Center. If the Proposed Project includes a home improvement center, it could result in market saturation in this retail sector, leading ultimately to closure of Home Depot. However, Home Depot and its largest competitor Lowe's are currently in a phase of opening stores to gather additional market share. Any consolidation and elimination of unprofitable stores may be several years away. This center survived the closure of its Kmart store, with the other anchor store, Safeway, as well as the Longs Drugs sustained by a customer base not driven by synergies with Home Depot. As a result, this center is unlikely to enter a cycle of additional vacancy leading to urban decay, even if the Home Depot is closed in a future consolidation of stores by its parent company.

Tennant Station. The main occupant at risk in Tennant Station is the Cinelux theatre complex, since the market area does not appear to be able to support additional screens in Morgan Hill. However, the two primary anchors of this center are a Safeway and a furniture store, neither of them at significant risk of closure due to the Proposed Project or other known future retail development. Additionally, the bowling alley is now slated for reopening later this year. This center has undergone major changes over the last several years, including the departure and reopening of Safeway, that indicate that vacant spaces will see reuse rather than long-term vacancy and decay.

Other Retail Nodes. For the other major retail nodes discussed above (Vineyard Town Center, Morgan Hill Plaza, and the Nob Hill Center) the analysis concludes that the project is unlikely to result in store closures at any of these centers. As a result urban decay and physical deterioration are also not indicated as secondary impacts of the project at these centers.

Mitigation Measures to Reduce or Avoid Potential Urban Decay

BAE recommends the following mitigations measures to lessen the potential for urban decay and physical deterioration.

General Mitigations. These measures are recommended to be implemented either citywide or for all potentially impacted retail nodes.

1. *Ordinances to enforce maintenance to prevent urban decay/physical deterioration of vacant retail spaces.* The analysis above indicates that there is a likelihood of closure for major tenants in Lawrence Oaks (Home Depot), Tennant Station (Cinelux theater complex), and Cochrane Plaza (Target, with the likelihood of other tenants following). If these centers (or others) face vacancies following the opening of the Proposed Project, the City of Morgan Hill will monitor maintenance of the vacated spaces and their centers for the first signs of disinvestment or deterioration, and require that these properties continue to be maintained to standards as stated in Section 15.56.020 of the Morgan Hill Municipal Code, such that the building will not endanger life, limb, health, property, safety, or welfare of the general public or its occupants. These standards are based on the International Conference of Building Officials "Uniform Code of the Abatement of Dangerous Buildings, 1997 Edition," except where otherwise noted in the Section 15.56.020 of the Morgan Hill Municipal Code. The property shall be maintained in accordance with Morgan Hill Municipal Code Section 8 regarding Health and Safety, including but not limited to keeping premises free of litter, weeds, graffiti, and abandoned vehicles.

2. *Funding of programs to assist small retail businesses in Morgan Hill.* To help small local businesses compete with likely national chain retailers in the Proposed Project, the City will fund programs aimed at assisting locally-owned small retailers. This could take the form of a business seminar sponsored by Target and the project developers to educate local retailers, or other

programs geared toward small retail business assistance, such as a kiosk at the Proposed Project providing information on shopping opportunities in Downtown Morgan Hill or other centers. Such a program could be funded by the City committing a percentage of the sales tax revenue generated by the Proposed Project.

3. Utilization of Redevelopment Agency Resources. The City of Morgan Hill will ensure the Target Corporation, the other owners of Cochrane Plaza, and the owners of Tennant Station, Vineyard Town Center, and the Lawrence Oaks Shopping Center are aware that their centers are in the City's Redevelopment Area, and as a result they are eligible to apply for programs administered by the City's Business Assistance Division, including the Facade Improvement Program, Impact Fee Financing Programs, and Business Assistance Guidelines.

Cochrane Plaza. The following mitigations are specific to Cochrane Plaza and the existing Target store slated for vacancy.

1. Maintenance of Vacant Target Store. As a condition of approval for the Proposed Project, the Target Corporation will make a written commitment, using a mechanism such as a restriction or notice on their deed to the existing store property, to maintain their vacated existing store per the guidelines set out above regarding abatement of physical decay and deterioration of buildings per the Morgan Hill Municipal Code. This maintenance will include but not be limited to prompt removal of trash and graffiti and upkeep of the vacant building to leasable standards for a modern community shopping center. This commitment will extend to successors in ownership if the Target Corporation sells the property prior to re-tenanting. This commitment will extend until a majority of the space in the vacant store is re-occupied for a period of at least 12 consecutive months.

2. Façade Easement. As an additional measure to assure proper maintenance of the vacated store, the Target Corporation will provide the City of Morgan Hill with a façade easement on the existing Target space. The facade easement will make it easier for the City and its Redevelopment Agency to step in and clean up the site and lien the property for reimbursement, if needed. The easement language can establish the maintenance standards to be followed. For this property, the easement language should give the City the right to enter onto the property and perform any deferred maintenance thereon as may be necessary to keep the property in good condition and repair, if the Target Corporation or successor in ownership (the "owner") does not perform such maintenance itself within a set period of time after receiving notice of the need for maintenance. Such notice shall identify each item of maintenance and repair required to restore the landscaping and exterior facade on the Property to good condition and repair. All costs of maintenance performed by the City of Morgan Hill shall be paid directly by the owner or be reimbursed to the City by the owner. The owner's obligation to reimburse the City shall be secured by a lien encumbering the Property, which lien shall be enforceable in accordance with the provisions of California Civil Code Section 2924 et seq., as amended. This façade easement will be granted for a period not to exceed five years, or until a majority of the space is re-occupied for a period of at least 12 consecutive months.

3. Commitment to Re-Tenanting of Vacant Target Store. The Target Corporation shall provide the City with a written re-tenanting plan for the vacant store. Every six months until the majority of the space is leased to a tenant(s) with a lease commitment of at least 12 months, or sold to another independent party, the Target Corporation shall provide to the City of Morgan Hill a progress report on efforts to re-lease the vacant space. The Target Corporation shall not put restrictions on the types of retailers permitted, e.g., they will not refuse to lease to a Target competitor. Permitted activities and land uses shall be solely governed by the City's General Plan and Zoning Ordinance

Level of Significance Remaining After Mitigation

Based on the analysis here, BAE believes that urban decay is not a likely outcome for centers and retail nodes other than Cochrane Plaza, especially if the citywide mitigations described above are implemented. However, in the case of Cochrane Plaza, these mitigations and those that are center-specific may be somewhat effective, but it cannot be stated with any degree of certainty that they would prevent urban decay in that center. Thus, it is possible that the construction of the Proposed Project might lead to a significant and unavoidable impact with respect to urban decay and physical deterioration for Cochrane Plaza.

Appendices

Appendix A-1: Target Trade Area Census Block Groups

County	Tract	Group
Santa Clara	5121.00	1
Santa Clara	5121.00	2
Santa Clara	5121.00	3
Santa Clara	5122.00	1
Santa Clara	5123.04	1
Santa Clara	5123.04	2
Santa Clara	5123.05	1
Santa Clara	5123.05	2
Santa Clara	5123.06	1
Santa Clara	5123.06	2
Santa Clara	5123.06	3
Santa Clara	5123.06	4
Santa Clara	5123.07	1
Santa Clara	5123.07	2
Santa Clara	5123.08	1
Santa Clara	5123.08	2
Santa Clara	5123.09	1
Santa Clara	5123.09	2
Santa Clara	5124.01	2
Santa Clara	5124.01	3
Santa Clara	5124.02	1
Santa Clara	5124.02	2

Appendix A-2: Cinema Trade Area Census Block Groups

County	Tract	Block Group
Santa Clara	5121.00	1
Santa Clara	5121.00	2
Santa Clara	5121.00	3
Santa Clara	5122.00	1
Santa Clara	5122.00	2
Santa Clara	5123.04	1
Santa Clara	5123.04	2
Santa Clara	5123.05	1
Santa Clara	5123.05	2
Santa Clara	5123.06	1
Santa Clara	5123.06	2
Santa Clara	5123.06	3
Santa Clara	5123.06	4
Santa Clara	5123.07	1
Santa Clara	5123.07	2
Santa Clara	5123.08	1
Santa Clara	5123.08	2
Santa Clara	5123.09	1
Santa Clara	5123.09	2
Santa Clara	5124.01	1
Santa Clara	5124.01	2
Santa Clara	5124.01	3
Santa Clara	5124.02	1
Santa Clara	5124.02	2
Santa Clara	5124.02	3
Santa Clara	5125.03	1
Santa Clara	5125.03	2
Santa Clara	5125.05	1
Santa Clara	5125.05	2
Santa Clara	5125.06	1
Santa Clara	5125.06	2
Santa Clara	5125.07	1
Santa Clara	5125.07	2
Santa Clara	5125.07	3
Santa Clara	5125.07	4
Santa Clara	5125.08	1
Santa Clara	5125.08	2
Santa Clara	5125.08	3
Santa Clara	5125.08	4
Santa Clara	5126.01	1
Santa Clara	5126.01	2
Santa Clara	5126.01	3
Santa Clara	5126.01	4
Santa Clara	5126.02	1
Santa Clara	5126.02	2

Appendix B: Unemployment and Labor Force Trends in Civilian Labor Force

	Morgan Hill				Santa Clara County			
	Labor Force (a)	Employ-ment	Unemploy-ment	Unem-ployment Rate	Labor Force (a)	Employ-ment	Unemploy-ment	Unem-ployment Rate
1994	n/a	n/a	n/a	n/a	852,300	798,600	53,700	6.3%
1995	n/a	n/a	n/a	n/a	860,700	818,400	42,300	4.9%
1996	n/a	n/a	n/a	n/a	892,400	859,600	32,800	3.7%
1997	n/a	n/a	n/a	n/a	929,900	901,200	28,700	3.1%
1998	n/a	n/a	n/a	n/a	953,200	922,300	30,900	3.2%
1999	n/a	n/a	n/a	n/a	958,600	929,300	29,300	3.1%
2000	18,400	17,600	800	4.3%	940,900	911,400	29,500	3.1%
2001	18,500	17,200	1,300	7.0%	938,800	890,600	48,200	5.1%
2002	17,700	15,700	2,000	11.3%	890,400	814,800	75,600	8.5%
2003	16,900	15,000	1,900	11.2%	850,500	778,300	72,200	8.5%
2004	16,400	15,000	1,400	8.5%	829,400	774,800	54,600	6.6%
Change, 2000-2003					**Change, 1994-2004**			
Number	(2,000)	(2,600)	600		(22,900)	(23,800)	900	
Percent	-11%	-15%	75%		-3%	-3%	2%	

Notes: Civilian Labor Force refers to workers by place of residence. Sum may not equal parts due to independent rounding. Data represent annual averages of monthly employment data.

Sources: California Employment Development Department; Bay Area Economics, 2005.

Appendix C: Morgan Hill Taxable Retail Sales Trends, 1993 to 2003 (Adjusted for Inflation)

City of Morgan Hill Sales in 2004 $000 (a) (b)	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Apparel Stores (c)	$10,300	$9,295	$8,711	$8,813	$8,026	$4,517	$2,063	$2,193	$4,012	$7,627	#
General Merchandise Stores (d)	$53,180	$60,112	$60,867	$64,044	$66,437	$72,841	$79,023	$78,350	$78,756	$74,298	$62,640
Food Stores	$18,600	$21,007	$21,741	$23,490	$24,990	$25,302	$26,169	$26,708	$26,381	$25,022	$23,537
Eating and Drinking Places	$32,624	$31,908	$33,544	$37,000	$39,379	$40,428	$44,523	$44,654	$44,661	$41,109	$39,010
Home Furnishings and Appliances	$3,318	$4,102	$3,713	$4,266	$6,876	$9,911	$11,356	$14,998	$12,335	$10,496	$9,238
Building Materials and Farm Implements	$8,617	$9,138	$8,316	$8,664	$11,010	$12,826	$12,183	$10,419	$8,468	$6,636	$5,841
Auto Dealers and Auto Supplies (c)	$10,767	$9,089	$10,076	$10,705	$20,594	$25,185	$31,619	$36,354	$42,187	#	#
Service Stations	$21,584	$20,316	$22,495	$29,484	$33,855	$29,254	$34,953	$38,860	$35,891	$43,129	$47,337
Other Retail Stores (c)	$22,960	$57,211	$53,979	$53,640	$56,798	$63,296	$69,573	$73,245	$65,946	$104,524	$99,417
Retail Stores Total	**$181,950**	**$222,177**	**$223,443**	**$240,105**	**$267,965**	**$283,560**	**$311,462**	**$325,780**	**$318,636**	**$312,839**	**$287,021**

Morgan Hill Sales per Capita in 2004$ (e)	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Apparel Stores (c)	$402	$355	$323	$314	$274	$147	$65	$57	$117	$219	#
General Merchandise Stores (d)	$2,073	$2,294	$2,254	$2,279	$2,267	$2,369	$2,481	$2,053	$2,299	$2,138	$1,803
Food Stores	$725	$802	$805	$836	$853	$823	$822	$700	$770	$720	$677
Eating and Drinking Places	$1,272	$1,218	$1,242	$1,317	$1,344	$1,315	$1,398	$1,170	$1,304	$1,183	$1,123
Home Furnishings and Appliances	$129	$157	$138	$152	$235	$322	$357	$393	$360	$302	$266
Building Materials and Farm Implements	$336	$349	$308	$308	$376	$417	$383	$273	$247	$191	$168
Auto Dealers and Auto Supplies (c)	$420	$347	$373	$381	$703	$819	$993	$953	$1,232	#	#
Service Stations	$841	$775	$833	$1,049	$1,155	$951	$1,097	$1,018	$1,048	$1,241	$1,362
Other Retail Stores (c)	$895	$2,184	$1,999	$1,909	$1,939	$2,058	$2,184	$1,920	$1,925	$3,008	$2,861
Retail Stores Total (b)	**$7,094**	**$8,480**	**$8,276**	**$8,545**	**$9,146**	**$9,221**	**$9,779**	**$8,538**	**$9,303**	**$9,003**	**$8,260**
Population	**25,650**	**26,200**	**27,000**	**28,100**	**29,300**	**30,750**	**31,850**	**38,156**	**34,250**	**34,750**	**34,750**

(a) Retail sales have been adjusted to 2004 dollars using the California Consumer Price Index for All Urban Consumers, published by the State Dept. of Finance, based on data from the U.S. Bureau of Labor Statistics.
(b) Analysis excludes all non-retail outlets (business and personal services) reporting taxable sales.
(c) A "#" sign indicates data supressed to preserve confidentiality due to four or fewer outlets or sales of more than 80% of the category in one store. Suppressed sales have been combined with Other Retail Stores, so evaluation of changes in the Other Retail category should take this into consideration.
(d) For 1993, 1995, and 1996, Drug Store sales were not available due to disclosure rules; for these years, drug sales were assumed to be equivalent to 1994 (adjustment made before inflation factor applied).
(e) Per capita sales calculated based on State Board of Equalization reported sales and annual Department of Finance population estimates benchmarked to the decennial Census.

Sources: State Board of Equalization, U.S. Bureau of Labor Statistics; 1990 and 2000 U.S. Census; State Department of Finance; Bay Area Economics, 2005.

Appendix D: Gilroy Taxable Retail Sales Trends, 1993 to 2003 (Adjusted for Inflation)

City of Gilroy Sales in 2004 $000 (a) (b)	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Apparel Stores	$75,948	$84,929	$99,355	$119,747	$131,703	$127,842	$129,885	$135,721	$132,199	$132,613	$135,414
General Merchandise Stores (c)	$35,279	$53,594	$56,663	$50,853	$50,844	$52,653	$56,456	$63,419	$64,958	#	$119,929
Food Stores	$26,528	$25,219	$25,152	$27,647	$28,359	$26,686	$27,733	$34,969	$31,874	$25,837	$24,496
Eating and Drinking Places	$41,931	$40,120	$47,397	$49,795	$48,448	$52,263	$55,277	$60,328	$61,877	$62,550	$65,408
Home Furnishings and Appliances	$15,179	$15,292	$16,239	$18,220	$19,152	$20,703	$23,859	$27,009	$28,541	$25,579	$23,768
Building Materials and Farm Implements	$31,983	$34,027	$31,464	$39,141	$41,469	$43,024	$54,327	$89,376	$103,880	$89,794	$104,927
Auto Dealers and Auto Supplies	$135,281	$170,373	$186,686	$208,987	$214,816	$220,930	$246,637	$272,441	$273,257	$241,673	$215,665
Service Stations	$41,502	$41,622	$42,478	$48,492	$47,388	$44,591	$52,216	$58,645	$59,323	$60,859	$65,151
Other Retail Stores (c)	$33,111	$34,091	$37,801	$42,709	$43,805	$47,091	$61,787	$77,573	$76,009	$137,010	$77,076
Retail Stores Total	**$436,744**	**$499,266**	**$543,235**	**$605,592**	**$625,984**	**$635,782**	**$708,176**	**$819,482**	**$831,919**	**$775,914**	**$831,833**

Gilroy Sales per Capita in 2004$ (c)	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Apparel Stores	$2,308	$2,535	$2,935	$3,441	$3,664	$3,351	$3,255	$3,294	$3,092	$3,026	$3,017
General Merchandise Stores (c)	$1,072	$1,600	$1,674	$1,461	$1,414	$1,380	$1,415	$1,539	$1,519	#	$2,672
Food Stores	$806	$753	$743	$794	$789	$700	$695	$849	$745	$590	$546
Eating and Drinking Places	$1,275	$1,198	$1,400	$1,431	$1,348	$1,370	$1,385	$1,464	$1,447	$1,427	$1,457
Home Furnishings and Appliances	$461	$456	$480	$524	$533	$543	$598	$656	$667	$584	$529
Building Materials and Farm Implements	$972	$1,016	$930	$1,125	$1,154	$1,128	$1,362	$2,169	$2,429	$2,049	$2,337
Auto Dealers and Auto Supplies	$4,112	$5,086	$5,515	$6,005	$5,975	$5,791	$6,181	$6,613	$6,390	$5,515	$4,804
Service Stations	$1,261	$1,242	$1,255	$1,393	$1,318	$1,169	$1,309	$1,423	$1,387	$1,389	$1,451
Other Retail Stores (c)	$1,006	$1,018	$1,117	$1,227	$1,218	$1,234	$1,549	$1,883	$1,777	$3,127	$1,717
Retail Stores Total (b)	**$13,275**	**$14,903**	**$16,048**	**$17,402**	**$17,413**	**$16,665**	**$17,749**	**$19,890**	**$19,455**	**$17,707**	**$18,531**
Population	**32,900**	**33,500**	**33,850**	**34,800**	**35,950**	**38,150**	**39,900**	**41,200**	**42,762**	**43,820**	**44,889**

(a) Retail sales have been adjusted to 2004 dollars using the California Consumer Price Index for All Urban Consumers, published by the State Dept. of Finance, based on data from the U.S. Bureau of Labor Statistics.
(b) Analysis excludes all non-retail outlets (business and personal services) reporting taxable sales.
(c) A "#" sign indicates data supressed to preserve confidentiality due to four or fewer outlets or sales of more than 80% of the category in one store. Suppressed sales have been combined with Other Retail Stores, so evaluation of changes in the Other Retail category should take this into consideration.
(e) Per capita sales calculated based on State Board of Equalization reported sales and annual Department of Finance population estimates benchmarked to the decennial Census.

Sources: State Board of Equalization, U.S. Bureau of Labor Statistics; 1990 and 2000 U.S. Census; State Department of Finance; Bay Area Economics, 2005.

Appendix E: Santa Clara County Taxable Retail Sales Trends, 1993 to 2003 (Adjusted for Inflation)

Santa Clara County Sales in 2004 $000 (a) (b)	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Apparel Stores	$782,882	$812,858	$834,740	$897,130	$933,537	$900,751	$890,653	$979,742	$950,005	$925,991	$953,908
General Merchandise Stores	$2,566,204	$2,599,198	$2,667,639	$2,694,006	$2,875,672	$2,940,782	$3,055,350	$3,191,586	$2,925,465	$2,697,999	$2,657,321
Food Stores	$827,837	$807,281	$812,019	$849,628	$871,287	$892,347	$911,778	$942,551	$925,759	$875,522	$841,459
Eating and Drinking Places	$1,819,017	$1,850,264	$1,970,313	$2,097,509	$2,206,901	$2,267,170	$2,360,159	$2,562,455	$2,407,852	$2,243,675	$2,195,508
Home Furnishings and Appliances	$761,297	$809,269	$886,326	$934,425	$917,678	$961,210	$1,093,605	$1,316,387	$1,041,208	$894,040	$819,613
Building Materials and Farm Implements	$995,766	$1,040,896	$1,116,107	$1,223,189	$1,336,159	$1,400,250	$1,456,399	$1,587,761	$1,479,486	$1,395,774	$1,401,769
Auto Dealers and Auto Supplies	$2,360,187	$2,417,286	$2,729,695	$3,018,987	$3,282,122	$3,435,755	$3,780,753	$4,399,940	$3,829,743	$3,360,689	$3,225,689
Service Stations	$1,085,480	$1,079,516	$1,048,237	$1,211,764	$1,198,929	$1,068,216	$1,320,234	$1,616,140	$1,492,271	$1,301,493	$1,450,339
Other Retail Stores	$2,635,070	$2,855,269	$3,383,299	$3,627,883	$3,865,041	$4,039,114	$4,592,181	$5,507,206	$4,237,325	$3,550,818	$3,403,183
Retail Stores Total	**$13,833,739**	**$14,271,837**	**$15,448,375**	**$16,554,521**	**$17,487,326**	**$17,905,595**	**$19,461,112**	**$22,103,769**	**$19,289,114**	**$17,246,002**	**$16,948,789**

Santa Clara County Sales per Capita in 2004$ (c)	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Apparel Stores	$508	$522	$532	$566	$579	$550	$537	$583	$558	$540	$552
General Merchandise Stores	$1,664	$1,668	$1,701	$1,698	$1,783	$1,795	$1,843	$1,901	$1,720	$1,573	$1,539
Food Stores	$537	$518	$518	$536	$540	$545	$550	$561	$544	$510	$487
Eating and Drinking Places	$1,180	$1,187	$1,256	$1,322	$1,368	$1,384	$1,423	$1,526	$1,416	$1,308	$1,272
Home Furnishings and Appliances	$494	$519	$565	$589	$569	$587	$660	$784	$612	$521	$475
Building Materials and Farm Implements	$646	$668	$712	$771	$829	$855	$878	$946	$870	$814	$812
Auto Dealers and Auto Supplies	$1,531	$1,551	$1,741	$1,903	$2,035	$2,097	$2,280	$2,620	$2,251	$1,960	$1,868
Service Stations	$704	$693	$668	$764	$743	$652	$796	$962	$877	$759	$840
Other Retail Stores	$1,709	$1,832	$2,157	$2,287	$2,397	$2,465	$2,770	$3,280	$2,491	$2,070	$1,971
Retail Stores Total (b)	**$8,971**	**$9,157**	**$9,851**	**$10,435**	**$10,844**	**$10,929**	**$11,738**	**$13,163**	**$11,339**	**$10,056**	**$9,816**
Population	1,542,100	1,558,500	1,568,200	1,586,400	1,612,700	1,638,300	1,658,000	1,679,200	1,701,060	1,715,051	1,726,628

(a) Retail sales have been adjusted to 2004 dollars using the California Consumer Price Index for All Urban Consumers, published by the State Dept. of Finance, based on data from the U.S. Bureau of Labor Statistics.
(b) Analysis excludes all non-retail outlets (business and personal services) reporting taxable sales.
(c) Per capita sales calculated based on State Board of Equalization reported sales and annual Department of Finance population estimates benchmarked to the decennial Census.

Sources: State Board of Equalization, U.S. Bureau of Labor Statistics; 1990 and 2000 U.S. Census; State Department of Finance; Bay Area Economics, 2005.

Appendix F: California Taxable Retail Sales Trends, 1993 to 2003 (Adjusted for Inflation)

California Sales in 2004 $000 (a)	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Apparel Stores	$13,606,684	$13,697,162	$13,285,255	$13,769,955	$14,037,601	$14,002,400	$13,287,522	$14,361,422	$14,397,919	$14,730,283	$15,578,337
General Merchandise Stores	$42,230,303	$43,197,179	$43,185,384	$43,136,255	$44,468,225	$46,286,527	$49,340,398	$51,230,307	$50,749,172	$50,909,933	$51,878,308
Food Stores	$19,107,090	$18,472,797	$18,358,124	$18,884,159	$19,386,950	$19,234,549	$19,920,233	$20,539,802	$20,242,867	$19,898,473	$19,917,482
Eating and Drinking Places	$31,040,910	$31,639,974	$32,306,182	$33,283,299	$34,397,520	$35,864,349	$37,638,106	$39,640,859	$39,627,586	$39,982,798	$41,101,424
Home Furnishings and Appliances	$11,162,561	$12,108,930	$12,491,468	$12,103,350	$11,727,528	$12,575,143	$13,888,860	$15,194,814	$14,337,408	$14,682,076	$15,500,861
Building Materials and Farm Implements	$18,235,620	$18,914,567	$19,157,147	$19,783,627	$21,422,039	$23,112,758	$25,805,401	$27,728,594	$28,456,399	$29,477,210	$31,499,788
Auto Dealers and Auto Supplies	$37,898,356	$40,214,467	$42,418,950	$44,419,702	$46,288,448	$50,612,545	$56,892,860	$63,413,353	$65,358,284	$67,010,489	$68,812,964
Service Stations	$21,612,158	$21,425,678	$21,686,253	$23,686,378	$23,518,702	$20,710,014	$23,560,436	$28,180,111	$26,481,743	$25,124,126	$28,442,435
Other Retail Stores	$39,239,176	$41,629,573	$43,744,236	$46,839,874	$49,241,408	$51,432,039	$56,058,860	$60,609,068	$56,469,175	$54,869,430	$55,894,515
Retail Stores Total	**$234,132,859**	**$241,300,327**	**$246,632,999**	**$255,906,599**	**$264,488,420**	**$273,830,324**	**$296,392,677**	**$320,898,329**	**$316,120,551**	**$316,684,818**	**$328,626,115**

California Sales per Capita in 2004$ (c)	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Apparel Stores	$437	$436	$420	$433	$436	$429	$401	$425	$418	$420	$436
General Merchandise Stores	$1,356	$1,375	$1,366	$1,355	$1,381	$1,417	$1,489	$1,518	$1,473	$1,451	$1,454
Food Stores	$613	$588	$581	$593	$602	$589	$601	$609	$588	$567	$558
Eating and Drinking Places	$996	$1,007	$1,022	$1,045	$1,068	$1,098	$1,136	$1,174	$1,151	$1,139	$1,152
Home Furnishings and Appliances	$358	$385	$395	$380	$364	$385	$419	$450	$416	$418	$434
Building Materials and Farm Implements	$585	$602	$606	$621	$665	$708	$779	$822	$826	$840	$883
Auto Dealers and Auto Supplies	$1,217	$1,280	$1,342	$1,395	$1,437	$1,550	$1,717	$1,879	$1,898	$1,910	$1,928
Service Stations	$694	$682	$686	$744	$730	$634	$711	$835	$769	$716	$797
Other Retail Stores	$1,260	$1,325	$1,384	$1,471	$1,529	$1,575	$1,692	$1,796	$1,640	$1,564	$1,566
Retail Stores Total (b)	**$7,516**	**$7,680**	**$7,801**	**$8,038**	**$8,212**	**$8,385**	**$8,944**	**$9,507**	**$9,178**	**$9,025**	**$9,207**

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Population	31,150,000	31,418,000	31,617,000	31,837,000	32,207,000	32,657,000	33,140,000	33,753,000	34,441,561	35,088,671	35,691,442

(a) Retail sales have been adjusted to 2004 dollars using the California Consumer Price Index for All Urban Consumers, published by the State Dept. of Finance, based on data from the U.S. Bureau of Labor Statistics.
(b) Analysis excludes all non-retail outlets (business and personal services) reporting taxable sales.
(c) Per capita sales calculated based on State Board of Equalization reported sales and annual Department of Finance population estimates benchmarked to the decennial Census.

Sources: State Board of Equalization, U.S. Bureau of Labor Statistics; 1990 and 2000 U.S. Census; State Department of Finance; Bay Area Economics, 2005.

Appendix G: Detail of Additional Supportable Retail Square Feet from Current Population

Store Category	Taxable Sales $000		Total Sales $000		Per Capita Retail Sales		Per Capita Injection/ (Leakage)	Capture	Average Sales per Square Foot	Additional Supportable SF	Additional Sales
	Morgan Hill	SC County	Morgan Hill	SC County	Morgan Hill	SC County					
Apparel	$11,658	$953,908	$11,658	$953,908	$242	$554	(312)	25%	$369	10,200	$3,762,000
General Merchandise		$2,309,778		$2,309,778		$1,341					
Drugs		$347,543		$518,721		$301					
Gifts, Art, Novelties	$1,164	$91,507	$1,164	$91,507	$25	$53	(29)	50%	$300	2,300	$690,000
Sporting Goods	$4,993	$220,424	$4,993	$220,424	$107	$128	(24)	75%	$200	4,400	$880,000
Florists	$562	$50,886	$562	$50,886	$12	$30	(18)	90%	$238	3,300	$787,000
Photo Equipment		$46,883		$46,883		$27			$238	2,700	$644,000
Musical Equipment	$269	$103,047	$269	$103,047	$6	$60	(54)	75%	$238	8,200	$1,954,000
Stationery and Books	$832	$215,358	$832	$215,358	$18	$125	(108)	75%	$275	14,200	$3,905,000
Jewelry		$184,174		$184,174		$107			$1,225	2,900	$3,553,000
Office, Store and School Supply	$3,053	$1,193,856	$3,053	$1,193,856	$65	$693	(630)	50%	$275	55,200	$15,180,000
Other Specialty		$878,846		$878,846		$510			$238	26,500	$6,316,000
Food Stores	$24,802	$841,459	$82,673	$3,365,835	$1,769	$1,954	(240)	50%	$390	14,800	$5,772,000
Eating Places (No Alcohol)	$20,792	$779,902	$20,792	$779,902	$445	$453	(22)	90%	$475	2,000	$950,000
Eating Places (Beer & Wine)	$15,292	$777,670	$15,292	$777,670	$327	$451	(134)	75%	$525	9,300	$4,883,000
Eating & Drinking (All Types of Liquor)	$6,018	$637,936	$6,018	$637,936	$129	$370	(246)	75%	$525	16,900	$8,873,000
Household and Home Furnishings		$568,548		$568,548		$330			$338	20,800	$7,020,000
Household Appliance Dealers		$251,064		$251,064		$146			$700	6,300	$4,410,000
Building Materials	$24,983	$1,349,205	$24,983	$1,349,205	$518	$783	(265)	90%	$257	44,700	$11,510,000

Notes:
Cells in gray indicate no disclosure due to confidentiality rules covering taxable sales data.
Per capita sales calculated based on reported taxable sales and population estimates and projections for the Target Trade Area from Table 2, prorated to 2003 as follows:

	2000	2003	2004	Annual Change
Target Trade Area	46,542	46,744	46,811	0.1%
County	1,682,585	1,694,955	1,699,098	0.2%

County per capitas sales have been assumed as baseline against which to compare Morgan Hill. Sales assumed to be "leaking" from Morgan Hill if Morgan Hill has per capita sales below county benchmark. Assumptions have been made regarding possible capture by Morgan Hill of leakage in each category; for instance, Morgan Hill is unlikely to achieve high capture of apparel sales in the foreseeable future, because some apparel shopping is mall-based, and because of the factory outlet stores in Gilroy. Sales per square foot derived from several sources of industry benchmarks, including a Hinterliter de Lamas analysis of sales per square foot in California by store type, BizStats.com, and Urban Land Institute's *Dollars & Cents of Shopping Centers, 2004*. Analysis is limited to retail store types likely to be found in the proposed center (e.g., automobile dealers have been excluded). Also excludes all non-retail outlets (business and personal services) reporting taxable sales. Sales amounts rounded to nearest thousand dollars.

Sources: State Board of Equalization, 2000 U.S. Census; Claritas; Urban Land Institute; BizStats.com; Hinterliter de Lamas; Bay Area Economics, 2005.

Appendix H: Detail of Additional Supportable Retail Square Feet from Population Growth through 2010

Store Category	Trade Area Population Increase	Per Capita Retail Sales County	Additional Sales	Capture	Additional Sales	Average Sales per Square Foot	Additional Supportable SF
Women's Apparel	4,100	$165	$675,000	100%	$675,000	$463	1,459
Men's Apparel	4,100	$39	$159,000	100%	$159,000	$288	553
Family Apparel	4,100	$272	$1,117,000	100%	$1,117,000	$400	2,793
Shoes	4,100	$78	$319,000	100%	$319,000	$260	1,227
Apparel	4,100	$554	$2,270,000	100%	$2,270,000	$369	6,155
General Merchandise	4,100	$1,341	$5,497,000	100%	$5,497,000	$250	21,988
Drugs	4,100	$301	$1,234,000	100%	$1,234,000	$500	2,468
Gifts, Art, Novelties	4,100	$53	$218,000	100%	$218,000	$300	727
Sporting Goods	4,100	$128	$525,000	100%	$525,000	$200	2,625
Florists	4,100	$30	$121,000	100%	$121,000	$238	508
Photo Equipment	4,100	$27	$112,000	100%	$112,000	$238	470
Musical Equipment	4,100	$60	$245,000	100%	$245,000	$238	1,028
Stationery and Books	4,100	$125	$513,000	100%	$513,000	$275	1,865
Jewelry	4,100	$107	$438,000	100%	$438,000	$1,225	357
Office, Store and School Supply	4,100	$693	$2,841,000	100%	$2,841,000	$275	10,331
Other Specialty	4,100	$510	$2,092,000	100%	$2,092,000	$238	8,777
Food Stores	4,100	$1,954	$8,010,000	100%	$8,010,000	$390	20,538
Eating Places (No Alcohol)	4,100	$453	$1,856,000	100%	$1,856,000	$475	3,907
Eating Places (Beer & Wine)	4,100	$451	$1,851,000	100%	$1,851,000	$525	3,526
Eating & Drinking (All Types of Liquor)	4,100	$370	$1,518,000	100%	$1,518,000	$525	2,891
Households and Home Furnishings	4,100	$330	$1,353,000	100%	$1,353,000	$338	4,009
Household Appliance Dealers	4,100	$146	$598,000	100%	$598,000	$700	854
Lumber and Building Materials	4,100	$553	$2,269,000	100%	$2,269,000	$329	6,897
Hardware Stores	4,100	$122	$502,000	100%	$502,000	$238	2,106
Plumbing and Electrical	4,100	$73	$299,000	100%	$299,000	$238	1,255
Paint, Glass, and Wallpaper	4,100	$34	$141,000	100%	$141,000	$300	470
Auto Supplies and Parts	4,100	$130	$534,000	100%	$534,000	$214	2,501

Notes:

Population increase from Table 2:

	2005	2010	Annual Change
Target Trade Area	49,386	53,486	1.6%

County per capitas sales have been assumed as baseline against which to compare Morgan Hill. Sales assumed to be "leaking" from Morgan Hill if Morgan Hill has per capita sales below county benchmark. Assumptions have been made regarding possible capture by Morgan Hill of leakage in each category; for instance, Morgan Hill is unlikely to achieve high capture of apparel sales in the foreseeable future, because some apparel shopping is mall-based, and because of the factory outlet stores in Gilroy. Sales per square foot derived from several sources of industry benchmarks, including a Hinterliter de Lamas analysis of sales per square foot in California by store type, BizStats.com, and Urban Land Institute's *Dollars & Cents of Shopping Centers, 2004*. Analysis is limited to retail store types likely to be found in the proposed center (e.g., automobile dealers have been excluded). Also excludes all non-retail outlets (business and personal services) reporting taxable sales. Sales amounts rounded to nearest thousand dollars.
Sales amounts rounded to nearest thousand dollars.

Sources: State Board of Equalization, 2000 U.S. Census; Claritas; Urban Land Institute; BizStats.com; Hinterliter de Lamas; Bay Area Economics, 2005.

Appendix I: Top Ten Lifestyle Retailers by Number of Locations, 2004

2004 Rank	Retailer	Number of Lifestyle Center Locations	Avg. Lifestyle Center Sq Ft. per Store
1	Chico's	46	2,500
2	Talbots	41	6,800
3	Williams-Sonoma	35	5,100
4	Ann Taylor	34	4,400
4	Banana Republic	34	6,800
4	Victoria's Secret	34	5,500
5	Starbuck's	29	1,900
6	Pottery Barn	28	12,100
7	Gap	27	9,700
8	Bath & Body Works	25	2,900
9	Ann Taylor Loft	24	5,200
9	Claire's Accessories	24	1,200
10	Coldwater Creek	23	7,100
10	Jos A. Bank Clothier	23	4,700
10	White House/Black Market	23	2,300

Source: National Research Bureau

Appendix J: Competitive General Merchandise Stores in Morgan Hill and Gilroy

Store	Total Square Feet	Offerings	Adjacent Retail
Mervyn's 990 Cochrane Rd. Morgan Hill, CA 95037 (408)779-7800	77,161	Men's, women's, children's apparel. Miscellaneous appliances	Target, Cingular Wireless, Payless, Ross, Big 5, assorted restaurants.
Target 170 Cochrane Plaza Morgan Hill, CA 95037 (408) 778-1366	80,441	Apparel, general merchandise, snack bar.	Mervyn's, Cingular Wireless, Payless, Ross, Big 5, assorted restaurants.
Target 6705 Camino Arroyo , Gilroy, CA 95020-7075 USA (408) 848-6466	123,709	Grocery (frozen, dry foods), Pizza Hut, pharmacy Opened late 2004.	Bed Bath & Beyond, Kohl's Petsmart, Michaels, Sportmart, Ross and Barnes & Noble.
Wal-Mart 7900 Arroyo Circle Gilroy, CA 95020 (408) 848-8161	125,600	Garden centery, grocery, pharmacy, photo center, tire & lube. New 220,000 Supercenter replacement store under construction.	None
Kohl's 6765 Camino Arroyo Drive Gilroy, CA 95020-7075 (408)848-2032	88,408	Apparel, small appliances Opened Oct 2004	Target, Bed Bath & Beyond
Costco 7251 Camino Arroyo Gilroy, California 95020 United States	148,663	Photo lab, Auto Buying Program, Food Court, Gas Station, Optical Department, Pharmacy, Tire Service Center Opened March 2003	

Sources: BAE, based on site visits, interviews with store representatives, online research, and information provided by City of Morgan Hill.

Appendix K: Competitive Supermarkets

Store Name	Size (sf)	Year Opened	Offerings	Customer Base
Morgan Hill Foods 225 W Main Ave Morgan Hill, CA 95037 (408) 779-2156	19,500		Latino grocery. Ethnic as well as general foods.	
Albertson's 16955 Monterey St Morgan Hill, CA 95037 (408) 779-1420	23,200		Includes deli and Bakery	
Nob Hill Foods 451 Vineyard Town Ctr Morgan Hill, CA 95037 (408) 779-8485	32,440	1995	Bakery, deli, hot food, florist, large wine collection, Starbucks	Regional, extending into Gilroy
Safeway 100 Tennant Ave. Morgan Hill, CA 95037	53,985	2003	Bank, pharmacy, butcher, fuel large wine collection.	
Safeway 840 E Dunne Ave Morgan Hill, CA 95037 (408) 776-8720	60,000		Bank, pharmacy, butcher	

Sources: BAE, based on site visits, interviews with store representatives, online research, and information provided by City of Morgan Hill.

Appendix L: Broker Interviews

Lisa Rabello – Sequoia Management
(408) 559-9227

- Definitely does not want Target to move from current location to proposed center. It would draw people away from current tenants.
- Does not deal with tenants who would be interested in big box space. No idea who would occupy it. Maybe some nationals who are not in Morgan Hill yet.
- Current tenants have voiced concern over older Target closing down (Mervyn's).
- Primarily deals with month to month leases. Currently looking to lease 7,500 sq/ft space in Cochrane Plaza.
- Thinks an upscale grocer like Whole Foods or Trader Joe's would be a great addition to Morgan Hill.
- Commercial real estate market is "pretty good" right now, doesn't know what the vacancy rate is.
- Referred BAE to owner of Cochrane Plaza for more information on who could take large space if Target leaves.

Mack Morris – Owner, Cochrane Plaza
(408) 309 -1075

- If Target leaves the entire center would die. Target is by far the main draw for the center.
- Current businesses in Cochrane Plaza doing very poorly. Miller's Outpost barely holding on. Renting space at currently $0.60-$0.70 sq/ft. Asking $2.00-$2.25 sq/ft for current space. Offering $20,000 in tenant improvements.
- Looking for smaller specialty shop to fill current 7,500 sq space occupied by Miller's Outpost. Prospective tenants demand clause that enables them to void lease if Target leaves.
- Previously looked at property in Salem, OR where there is a law mandating any left box space be filled before the previous tenant can relocate in city. Recommends a similar law for Morgan Hill
- Making only 3% return from investment on Cochrane Plaza
- Recent improvements to signage and landscaping in effort to bring more people.
- Spoke to Trader Joe's reps: Morgan Hill does not have a large enough population base to support
- No idea on who would occupy the box space if vacant. Recommends Target expand to Mervyn's building and occupy two spaces if desire to expand is so great.
- Morgan Hill is jumping the gun. Shouldn't put in a new shopping center unless other centers are doing very well. If new center puts others out of business, then the city doesn't gain at all.
- Not allowed to lease to a grocery store due to city ordinance requiring vote.

Pat – Duckett Wilson Development
(800) 327-3019

- Market is pretty soft right now. Current tenants don't do a lot of business.
- Would only compete with new center if a supermarket is included. Albertson's is small and would like to grow. Most likely would move to new space or close if new grocery is built.
- Grocery anchored center, would be destroyed if supermarket left.
- Rite-Aid left and was replaced by a Dollar-Tree. Those are the types of tenants who would fill large vacant space like that.
- Can't speak for the city, but they are currently 10% vacant.

Mike La Barbera (Terracommercial)– Owner Tennant Station
(408) 947-1166

- Cinelux eight-screen theater is a current tenant. A new theater would eventually drive his out of business.
- Too much competition between theaters - nobody would make money sharing such a small population base.
- Current theater is already state of the art, so film distributors would decide at random which theater gets which movie.
- An eight screen theater requires a population of 50,000. Current theater is drawing people from South SJ and Gilroy.
- Heard that Century Theaters said they were uninterested in the proposed project.
- Doesn't think that businesses would be drawn to new center because there aren't enough people in Morgan Hill. In the end it would just be a new Target that would definitely bring about the closing of the entire Cochrane Plaza shopping center.
- Current theater owner looking to expand to 11 screens.